

INTRODUCTORY SECTION

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STATE OF COLORADO

GENERAL SUPPORT SERVICES DIVISION OF ACCOUNTS AND CONTROL

1525 Sherman Street, 2nd Floor
Denver, Colorado 80203
Phone: (303) 866-3281
Fax: (303) 866-4233



Roy Romer
Governor

Department of Personnel
André N. Pettigrew
Executive Director

Clifford W. Hall
State Controller

November 1, 1996

To the Citizens, Governor and Legislators of the State of Colorado

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Colorado for the fiscal year ended June 30, 1996. This report is prepared by the Office of the State Controller and is submitted pursuant to Colorado Revised Statutes 24-30-204. The State Controller is responsible for managing the finances and financial affairs of the state and is committed to sound financial management and accountability to its citizens.

We believe the financial statements are fairly presented in all material aspects. They are presented in a manner designed to set forth the financial position, results of operations, and changes in fund balances of the various fund types. All required disclosures have been included to assist the members of the General Assembly, the financial community, and the public to understand the state's financial affairs.

The financial statements contained in the CAFR are prepared in conformity with generally accepted accounting principles applicable to government as prescribed by the Governmental Accounting Standards Board (GASB), and are audited by the state auditor of Colorado. In addition to the general purpose financial statements, the CAFR includes: combining financial statements, presenting information by fund; supporting schedules; certain narrative information describing individual funds; and statistical tables and charts presenting financial, economic, and demographic data about the state.

The funds and entities included in the CAFR are those the state is financially accountable for, based on criteria for defining the financial reporting entity prescribed by GASB. The primary government includes all funds and account groups of the state, its departments, agencies, and state funded institutions of higher education that comprise the state's legal entity, and certain university foundations that have been included with the institution that is financially accountable for the foundation.

Discretely presented in the financial statements are component units, which are legally separate entities, for which the state's elected officials are financially accountable. These component units are the following entities:

Colorado State Fair Authority
Denver Metropolitan Major League Baseball Stadium District
University of Colorado Hospital Authority
Colorado Water Resources and Power Development Authority
Colorado Uninsurable Health Insurance Plan

Supporting The Business of

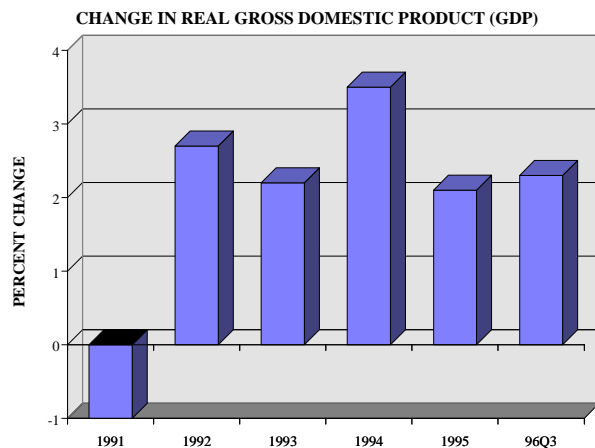


Colorado State Government

Additional information about these and other related entities is presented in this report in Note I-A of the footnotes to the general purpose financial statements. Audited financial reports are also available from each of the above entities.

ECONOMIC CONDITION AND OUTLOOK

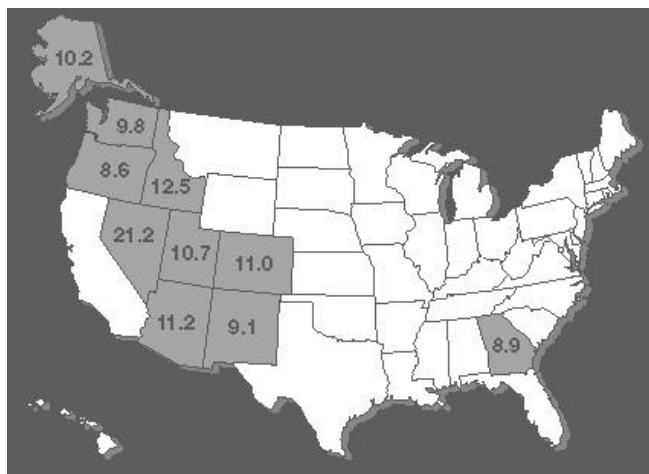
The U.S. Commerce Department reported that Gross Domestic Product (GDP) in the third quarter declined to an annual rate of 2.0 percent, in contrast to the surge of 4.7 percent in the second quarter.



In October, jobs in the private sector grew by 210,000 after a decline of 35,000 in September. This held the national unemployment rate steady at 5.2 percent, close to a seven year low. Better news was that the average hourly wage in the nonfarm sector for the three months ending October 31 was up 3.4 percent over the previous year. After adjusting for inflation, the gain in real pay was a positive 1.3 percent, the fastest growth rate in almost two decades.

For now, slow but steady job growth and rising real wages suggest that demand is moving ahead in the fourth quarter. Colorado's Office of State Planning and Budgeting predicts the real GDP for the nation will continue its steady course through 1998. They estimate real national GDP at 2.0 percent for 1997 and 2.1 percent for 1998.

Ten Fastest Growing States, Percent Population Change 1990 to 1994



On average, between 1990 and 1994, Colorado's non-farm wage and salary employment grew by approximately 58,500 per year. This employment growth was fueled by the large number of immigrants. Non-farm wage and salary employment totaled 1,814,800 in 1995 for a 3.4 percent growth over the year before. Total non-farm employment increased at a rate of 4.0 percent for the first six months of 1996 and the unemployment rate remained steady at 4.1 percent in July, a full 1.6 percent below the national rate.

The Colorado Legislative Council expects non-farm employment to increase 3.5 percent for all of 1996 and 2.8 percent in 1997. This job growth will exceed the national gains by a wide margin. However, a slowing job growth in Colorado will cause the unemployment

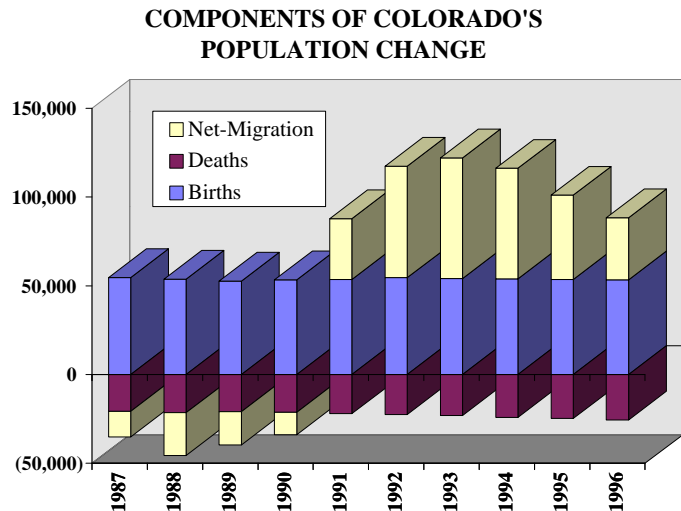
rate to increase for the remainder of the decade, resulting in a forecasted rate of 5.2 percent by 1999.

Colorado's personal income increased 7.7 percent in 1995, while per capita income increased by 5.5 percent for the same period. This ranked Colorado 18th among the states in per capita income. The Legislative Council predicts that wage and salary income, which represents 60 percent of personal income, will maintain a healthy 7.3 percent increase in 1996, before slowing to a 6.8 percent advance in 1997. Wage and salary income grew 7.2 percent during 1995.

America's population, 263 million currently, is likely to reach 335 million by the year 2025 according to the Census Bureau. Their projections show that 13 of the 14 fastest growing states are west of the Mississippi River (Florida is the only eastern state in the top 14). In that group Colorado is projected by the Census Bureau to be the 14th fastest growing state, with an anticipated population growth of 39 percent between 1995 and 2025.

Colorado's faster growth has come with a price. The state's inflation has stayed stubbornly above the nation's for the last four years running. Higher inflation has tilted the state's relative cost advantages to the high side. Inflation, as measured by the Denver-Boulder CPI-U should remain above the national rate for the rest of the decade lead by the housing index component of the CPI-U. In June 1996, the median price of a new home in Denver was \$168,400 according to the Home Builders Research in Denver, while the U.S. Census Bureau reports the national median price of a new home at \$139,800 for the second quarter of 1996.

For the remainder of the decade Colorado's average annual population growth should slow to 1.8 percent. This may give the state a chance to catch up from the hectic 2.7 percent growth rate of the first half of the decade. But the state is currently short of prison space, school buildings, and meeting its transportation needs. Article X, Section 20 (TABOR) of the state's constitution prohibits raising taxes without a vote of the people. So far the state has funded additional highway needs by transfers from the General Fund to the Highway Fund. But it is estimated that there is a \$13 billion shortfall in meeting the state's transportation needs over the next twenty years. It has been suggested that it may be necessary to ask the voters before the end of the decade to help resolve the state's growing infrastructure needs.



MAJOR GOVERNMENTAL INITIATIVES

Due to demands for improved transportation and relief from traffic congestion caused by increased vehicle miles traveled in the state, the General Assembly appropriated \$115 million of general purpose revenues to the Department of Transportation in fiscal year 1996-97. This was in addition to the department's annual Highway Users Tax Fund appropriation.

The General Assembly also authorized the Department of Transportation to raise the state speed limit to 75 mph on rural interstate highways, and to raise the speed limit on other roads after the department prepares engineering studies of those roads.

The General Assembly, during the 1996 legislative session passed, and the governor signed, a bill to rewrite the juvenile justice parts of the Children's Code. The law allows children as young as 12 to be sentenced as adults. In other action related to children, the state will now require that third-graders be able to pass a reading comprehension test or else take remedial reading.

The General Assembly also passed, and the governor signed, a bill instructing the State Board of Education to allow a pilot of the charter school district concept. This program allows a school district to specify their own duties, responsibilities, and operations. The General Assembly found that the restrictions and requirements of state laws and regulations often prevented school districts from achieving effective education reform.

The General Assembly passed, and the voters of the Northeastern Junior College District approved, the dissolution of the district and entry of the college into the state's community college system effective July 1, 1997.

BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS

The annual budget of the state for ongoing programs, except for federal and custodial funds, is enacted by the General Assembly. New programs are funded for the first time in the enabling legislation and continued through the Long Appropriations Act in future periods. For the most part, appropriations lapse at the end of the fiscal year unless the state controller approves an appropriation roll-forward required by extenuating circumstances. Capital construction appropriations are normally effective for three years.

The budget is recorded in the state's accounting system along with federal awards and custodial funds of the various departments. Encumbrances are also recorded and result in a reduction of the budget authority. Encumbrances represent the estimated amount of expenditures that will be incurred when outstanding purchase orders are filled or contracts or other commitments are fulfilled. Open encumbrances in the General Fund are not reported as a reservation of fund balance unless the related appropriations are approved for roll-forward to the subsequent fiscal year. Fund balance is reserved for open encumbrances that represent legal or contractual obligations in the Capital Projects Fund and the Department of Transportation's portion of the Special Revenue Fund.

The state's financial records for governmental type funds are accounted for on a modified accrual basis with the revenues recorded when available and measurable, while expenditures are recorded

when goods or services are received or a liability is expected to be liquidated from current available resources. Accounting records for proprietary and fiduciary type funds are maintained on the full accrual basis. That is, revenues are recorded when earned, and expenses, including depreciation, are recorded when incurred.

In developing the state's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. Those controls also assure the reliability of financial records for preparing financial statements and maintaining the accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. We believe that the state's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

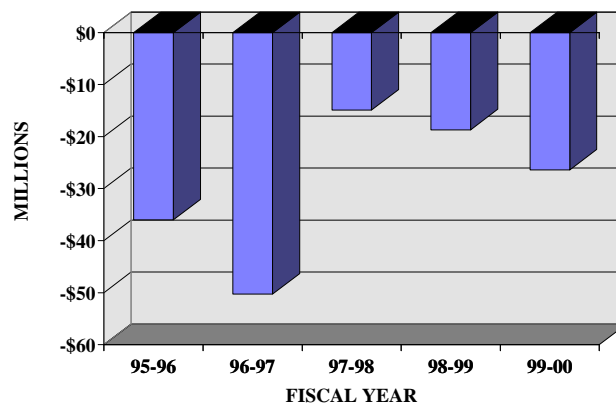
FINANCIAL OVERVIEW

Fiscal year 1995-96 is the third year of state operations under the TABOR revenue limitations (Article X, Section 20 of the state's constitution). With certain exceptions, the rate of growth of state revenues is limited to the percentage change in the state's population growth plus inflation based on the Denver-Boulder CPI-Urban index. The exceptions include federal funds, gifts and donations, sales of property, refunds, damage recoveries, and transfers.

In the first three years of operation the state has not exceeded the TABOR limitation for revenues. Revenues collected in excess of the limitation must be returned to the citizens unless a vote at the annual election in November allows the state to retain the surplus. TABOR also limits the General Assembly's ability to raise taxes. The Office of State Planning and Budgeting forecasts that state revenues will remain below the TABOR limitation for the remainder of the decade.

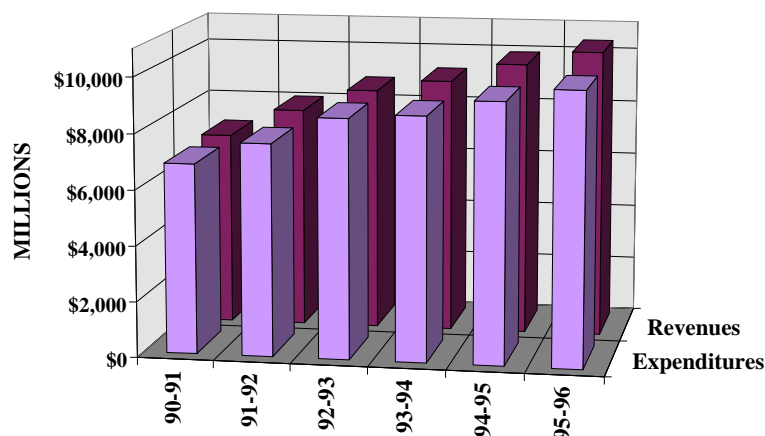
The current combined balance sheet for the state's primary government shows total assets of \$10,511 million and liabilities of \$3,860 million. Under current accounting principles this difference of \$6,651 million is the financial equity that the citizens of Colorado have in their state government. The state's current accounting practices do not include the recording of infrastructure on the state's books. Thus, the recorded equity is exclusive of such assets as highways, bridges, and parks. Similarly, there is no recording of the estimated cost to maintain those assets.

PROJECTED HEADROOM UNDER THE TABOR
LIMITATION



Total revenues and other financing sources, excluding operating transfers, for the primary government were \$10,383 million and \$9,884 million in fiscal years 1995-96 and 1994-95, respectively.

**TOTAL REVENUES AND OTHER FINANCING SOURCES,
AND TOTAL EXPENDITURES/EXPENSES AND OTHER
FINANCING USES**



Total expenditures/expenses and financing uses were \$9,790 million and \$9,331 million for each of the same periods.

Various fund equity accounts, taken as a whole, were larger at the end of the year than at the beginning primarily because revenues for fiscal year 1995-96 exceeded expenditures. The equities of the governmental fund types rose \$136.9 million because revenues and transfers-in exceeded expenditures and transfers-out. The combined fund equities of the colleges and universities increased by \$215.6

million. The Trust Funds had an increase of \$255.4 million, with \$176.0 million coming from a transfer from the General Fund to the Controlled Maintenance Trust Fund. An additional \$20 million was transferred from the General Fund to the Regular Capital Construction Fund and then to the Controlled Maintenance Trust Fund. This is a nonexpendable trust fund established in fiscal year 1993-94 to pay for maintenance of state property. Beginning with fiscal year 1995-96, the net assets of the Controlled Maintenance Fund were partially reserved to satisfy the TABOR requirement for a 3% emergency reserve (see Note II-D in the financial statements).

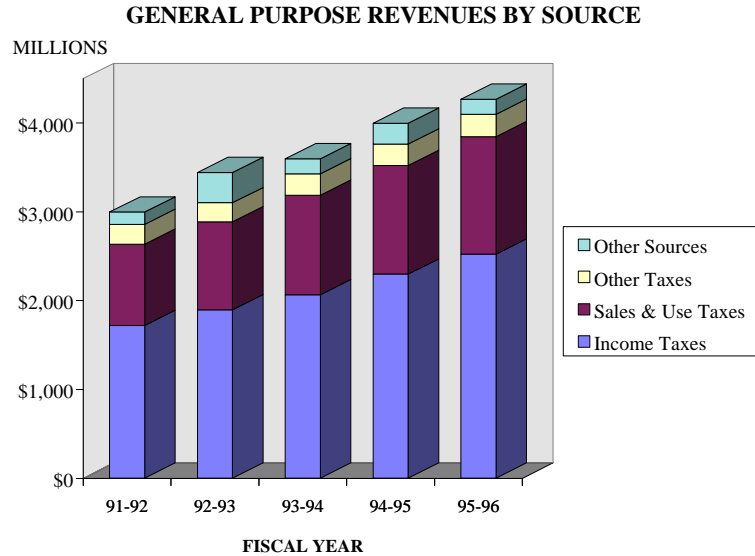
Proprietary fund types had an equity increase of \$3.2 million. However, there were two major changes in the proprietary funds. The activities of the Risk Management Fund, an internal service fund, are now accounted for and reported in the General Fund. This change resulted in a \$93.2 million increase in the fund equity of the proprietary funds since the General Long-Term Debt Account Group absorbed the majority of the Risk Management Fund's liabilities. Most of the activities of the Highway Internal Service Fund were moved to the Special Revenue Funds. This change resulted in a \$91.6 million decrease in fund equity since most of the related fixed assets are reported in the Fixed Asset Group of Accounts.

GENERAL FUND ACTIVITIES

The General Fund is the focal point to determine the state's financial position. This fund accounts for all revenues and expenditures that are not required by law to be accounted for in other funds. Revenues of the General Fund consist of two broad categories, general purpose revenues and augmenting revenues. General purpose revenues are taxes, fines, and other similar sources that are raised without regard to how they will be spent. Augmenting revenues consist of federal funds, transfers-in, cash fees and charges, or specific user taxes. Augmenting revenues are usually restricted as to how they can be spent.

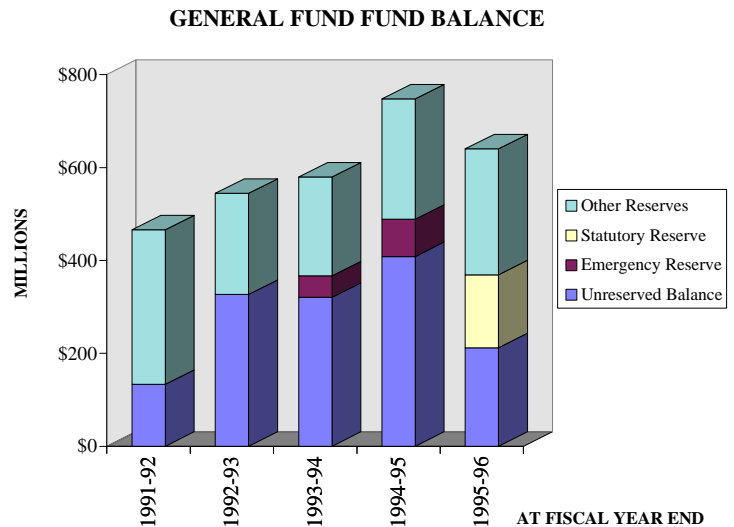
In the CAFR, all statements depicting the General Fund in the General Purpose Financial Statements Section include general purpose and augmenting revenues. The *Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance, Budget and Actual*, presented in the Combining Financial Statements and Schedules Section, includes only the general purpose revenues and expenditures supported by those revenues.

General purpose revenues for fiscal years 1995-96 and 1994-95 were \$4,269 million and \$3,996 million, respectively. Sales and use taxes increased by \$98.6 million or 8.1 percent. Individual income taxes increased by \$212.0 million or 10.1 percent. These large increases in sales and income taxes demonstrate the continued health of the Colorado economy and robust growth in the state's population during fiscal year 1995-96.



Total expenditures and transfers-out funded from general purpose revenues during fiscal years 1995-96 and 1994-95 were \$4,390 million and \$3,914, respectively. The Departments of Education, Health Care Policy and Financing, Higher Education, and Human Services accounted for approximately 74.5 percent of all fiscal year 1995-96 general funded expenditures. Of the departments with substantial general funded expenditures, the Department of Corrections had the largest annual percentage increase at 14.7 percent over the previous year.

In addition to TABOR revenue limitations mentioned under the section "Financial Overview", the total annual increases in general funded expenditures are limited to 6 percent over the previous year with certain adjustments. The primary adjustments are for changes in federal mandates and lawsuits against the state. This limitation is controlled through the budget process.



The "Unreserved" title, in the fund equity section of the General Fund on the *Combined Balance Sheet* of the General Purpose Financial Statements, relates to the accumulated net general purpose revenues. The cumulative net augmenting revenues are represented as "Reserved For Other

Specific Purposes." Augmenting revenues of the General Fund were \$2,068 million and \$1,841 million in fiscal years 1995-96 and 1994-95, respectively. Federal grants and contracts made up 88.7 percent and 94.8 percent of this amount in each respective fiscal year. The remainder is cash funds, which consist of revenues of specific programs that are statutorily restricted.

During fiscal years 1993-94 and 1994-95 a portion of the fund balance was reserved for emergencies as required by Article X, Section 20 (TABOR) of the state constitution. Beginning in fiscal year 1995-96, a portion of the fund balance of the Controlled Maintenance Trust Fund has been designated by the legislature as the TABOR emergency reserve.

Beginning in fiscal year 1995-96, the controller reserved an amount equal to the statutorily required four percent of General Fund appropriation. Prior to this year the four percent reserve was determined during the appropriation process but was not formally recognized in the financial statements.

PROPRIETARY OPERATIONS

Proprietary type funds are accounted for using the full accrual basis of accounting as would a private business. Their operations have many of the attributes of a business in that their revenue relates to the provision of goods or services to the state or to the general public. Capital investments of these operations are recorded within the fund and depreciation is recorded using methods similar to private enterprise. Proprietary funds consist of enterprise funds that provide services to the citizens of the state, and internal service funds that provide services to the state government.

Total fund equity for the proprietary funds at June 30, 1996 and June 30, 1995, were \$111.6 million and \$108.4 million, respectively. Operating revenues for the proprietary operations were \$606.1 million for fiscal year 1995-96 and \$668.3 million for fiscal year 1994-95. Operating expenses were \$563.4 million and \$674.9 million, respectively. During fiscal year 1995-96, the major transfers from the Lottery Fund were \$33.1 million to the Conservation Trust Fund and \$8.3 million to the Wildlife Fund. In addition, \$49.9 million was distributed from the Lottery Fund's net proceeds to the Great Outdoors Colorado Trust Fund, a constitutionally created public authority.

DEBT ADMINISTRATION

The State of Colorado is prohibited by its constitution from incurring any general obligation debt. Many higher education institutions have issued bonds and notes with revenues pledged from specific user payments to retire these bonds and notes. Additional information is provided in the footnotes to the general purpose financial statements and the statistical section of this report.

CASH MANAGEMENT

Statutes permit the state treasurer to invest cash not needed immediately to pay obligations of the state. These investments may consist of obligations of the United States, commercial paper of prime quality, repurchase agreements, bank acceptance agreements, and other investment instruments. The treasurer also invests the funds of the Colorado Compensation Insurance Authority, the Colorado Water Resources and Power Development Authority, and the Great Outdoors Colorado Trust Fund. At June 30, 1996, the state treasurer held the following investments at book value:

Investment Type	Amount in Millions
United States Treasury and Agencies	\$1,500.4
Asset Backed Securities	590.8
Commercial Paper	332.7
Mortgages	298.5
Repurchase Agreements	153.9
Bankers' Acceptance	149.0
Corporate Bonds	98.6
Mutual Funds and Other Pooled Investments	278.7
TOTAL	<u><u>\$3,402.6</u></u>

RISK MANAGEMENT

The state self-insures its agencies, officials, and employees for the risks of losses for general liability, motor vehicle liability, workers' compensation, and medical claims. Prior to fiscal year 1995-96, the Risk Management Fund, an internal service fund, was used for this purpose. However, because the claim reserves were not being funded during fiscal year 1995-96, the state began using the General Fund (as required by current accounting pronouncements) for all claims or judgments except for employee medical claims. (See Notes I-E, III-L, IV-D, and IV-F to the General Purpose Financial Statements). Medical claims for officials and employees are managed through the State Employees and Officials Insurance Fund, an internal service fund. Property claims are not self-insured, as the state has purchased insurance. (See Note IV-F to the General Purpose Financial Statements.)

The Regents of the University of Colorado are self-insured for workers' compensation, auto, general and property liability, and official's and employee's medical claims. The university's medical claims are handled by a third party through a contractual agreement. The university has also purchased stop-loss insurance for individual medical claims in excess of \$500,000. (See Note IV-F to the General Purpose Financial Statements.)

INDEPENDENT AUDIT

The audit of the General Purpose Financial Statements was performed by the state auditor. The opinion of the auditor is on page 1 of this report preceding the financial statements. Besides an audit of the statewide financial statements, the auditor will from time to time audit the financial statements and operations of various departments and institutions within state government.

In 1984, the United States Congress passed the Single Audit Act. It places a greater responsibility on the state and the auditor to ensure that federal moneys, whether expended by the state or subrecipients, are properly accounted for. Under the requirements of this act, transactions of major federal programs are tested. The state prepares and issues a Schedule of Federal Financial Assistance. The state auditor issues a separate report on that schedule and the internal controls related to federal assistance programs.

ACKNOWLEDGMENTS

In conclusion, I thank my staff and the staffs of all the state departments and institutions whose time and dedication have made this report possible, and further, I reaffirm our commitment to maintain the highest standards of accountability in financial reporting.

Sincerely yours,

A handwritten signature in black ink that reads "Clifford W. Hall". The signature is written in a cursive, flowing style.

Clifford W. Hall
State Controller